

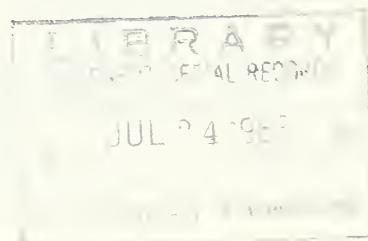
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PRICE QUOTATIONS FOR EVEN-RUNNING LOTS OF COTTON



UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL MARKETING SERVICE
MARKET ORGANIZATION AND COSTS BRANCH
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Joseph H. Stevenson assisted in the collection of data from mills. Wallace L. Ashby directed the statistical work and assisted in the analysis of the results.

PRICE QUOTATIONS FOR EVEN-RUNNING LOTS OF COTTON

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SUMMARY

The purpose of this study was to measure the extent to which the Department of Agriculture's cotton price quotations for even-running lots of cotton delivered to Group 201 mill points (Group B), as issued weekly at the AMS Cotton Division's four area offices, conformed to actual prices paid by cotton mills. Another important objective was to inquire into the possibilities of improving the quotations in order that they would reflect more accurately the actual prices paid by mills for even-running lots.

For this purpose price and quality data were obtained from 60 cotton purchasing offices of mills in the Group B Mill Area. About 1,100 transactions and over a quarter of a million bales of cotton were involved in the data collected. Despite certain limitations on the availability and representativeness of some of the mill prices, a sample reasonably adequate for the main purposes was obtained.

The divergence of quotations from actual prices paid by mills by date, quality, period, and area of growth were analyzed. In general, the divergences indicated that quotations were consistently higher than prices paid by mills. This plus bias applied in a remarkably uniform pattern to quotations for each of the four areas of growth included in this study--Southeastern, Memphis Territory, Texas-Oklahoma, and California. The overall divergence for Southeastern growths was +27 points, Memphis Territory +36 points, Texas-Oklahoma +40 points, and California +22 points. The plus bias shown in each growth area was apparently attributable to the excessive use of asking prices in determining market quotations rather than actual sales prices.

Mill executives and members of the cotton trade were asked for their opinions of the accuracy of the quotations and for suggestions for improvement. An overwhelming majority of those who expressed opinions made commendatory statements concerning the quotations. Of the few adverse criticisms received, most were to the effect that the quotations were too high and some gave as a reason for this that merchants might be inclined to give asking prices rather than actual prices.

These criticisms were borne out by the results of this study. It is recommended that market news reporters in compiling their weekly quotations for even-running lots make increased efforts to differentiate between actual prices and asking prices to the end that quotations will more accurately reflect actual prices. It appears that greater reliability would be obtained if more prices were collected regularly from mill offices in addition to those

collected from merchants and shippers. While the cooperation of cotton merchants is essential and will probably continue as the most practicable source of prices, greater participation by mill buyers should give better balance to the quotations and increase their reliability. Through greater interest on the part of both merchants and mills, the report should become a more effective aid in marketing cotton for the benefit of the entire industry.

PURPOSE AND PLAN OF STUDY

The four area offices of the Cotton Division, Agricultural Marketing Service, publish cotton price quotations weekly for even-running lots of cotton, prompt shipment, landed mills, ^{1/} for the growths reported in the respective areas. At the time this study was made the growths for which quotations were issued included Southeastern, Memphis Territory, Texas-Oklahoma, and California. Price quotations are issued for Strict Middling, Middling, Strict Low Middling, and Low Middling in the most important staple lengths of cotton prevailing in each of these areas.

The quotations for even-running lots are prepared weekly by the market news reporters in the area offices from information obtained, for the most part, from merchants and shippers in the market in which the area office is located. The market news reporter canvasses merchants and shippers, and such few mill buyers, if any, as are accessible by personal interview or, in some cases, by means of weekly questionnaires to outlying points in the marketing areas.

The aim of this study was to compare the quotations for even-running lots of cotton issued by the Department at four area offices with the actual prices paid by mills in the Group B Mill Area of North and South Carolina for cotton of specific qualities and to determine the extent to which quotations conformed to average prices paid by mills. Suggestions for improving the soundness and usefulness of the service dealing with quotations also were sought.

Data were obtained from a representative number of cotton mills in the Group 201 (Group B) Mill Area relating to their purchases of even-running lots of cotton, prompt shipment. These data, which were obtained from the mills' records, included the date of purchase, grade and staple length of the cotton, area of growth, and price paid. Only transactions involving use of official standards were listed. Purchases of split grades, such as Middling Bright, or other special descriptions were common, but were not included in the listing. Cotton classers of the Cotton Division, in a report on each Group B mill visited, had stated whether or not the 1954 carryover stock at the mills conformed to official standards. These reports were used in selecting mills from which to request data.

^{1/} "Prompt shipment" is defined by Southern mill rules as shipments covered by bill of lading having a date not later than 14 days after date of purchase.

"Landed mills" means freight and other costs of delivery to mills are included in price.

Prices were listed in terms of points on or off the appropriate New York futures month; the prices were converted if given otherwise in the mill records. By use of the base futures price, a greater degree of comparability between weekly quotations and the prices paid during the week in question was obtained. The method of expressing prices in points, on and off the price of the appropriate futures month, in the same manner that quotations are expressed in the Department's reports, removed discrepancies in prices caused by normal daily fluctuations of the futures prices.

Relating a quotation to a transaction involved first arranging the transactions according to weeks ending with the effective date applicable to the quotation report. Then the prices paid for individual lots of even-running cotton of specified qualities were subtracted from the quotation applicable to the same quality for the week. The divergences between the price paid in the actual transaction and the price quotation were recorded as plus, minus, or zero, according to whether the quotation was greater than the price paid, less than the price paid, or the same as the price paid. The compilation of the divergences afforded a means of analyzing the relationship between quotations and prices.

SIZE OF SAMPLE

Data on price and quality of cotton were obtained from a total of 60 mills in the Group 201 Mill Area of North and South Carolina. Studies were made on a total of 1,110 transactions involving about 234,000 bales of cotton. The largest volume of data was for Southeastern growths of cotton, but data for Memphis Territory and California growths were reasonably plentiful. The volume for Texas-Oklahoma growths was conspicuously small (table 1).

Table 1.--Number of cotton mill purchasing offices from which price and quality data for even-running lots, prompt shipment, were obtained, and number of lots and bales involved by areas of growth, October 1953 to December 1954

Area of growth	Mill purchasing	Transactions	Quantity of
	offices		cotton involved
	Number	Lots	Bales
Southeast.....	36	527	95,389
Memphis Territory.....	35	307	67,909
Texas-Oklahoma.....	8	29	4,683
California.....	29	247	66,012
Total.....	108	1,110	234,004

1/ Sixty offices furnished data, most of them on more than one growth of cotton.

The number of mill units involved was much greater than the number of mills stated, as some centralized purchasing offices buy cotton for chains of mills.

LIMITATIONS OF THE DATA

Certain limitations hampered the collection of usable data in as large a volume as would have been preferred. One of the most restrictive of the limitations was that the purchases are not usually for prompt shipment. Many mills, both large and small, purchase all of their requirements for forward shipments. They plan their purchases in advance and in many cases buy cotton "round the clock" for as much as a year or more ahead of the time the cotton will be actually needed. Many mills never purchase cotton for prompt shipment except for "fill-ins" or for emergencies. Still there are some mills that buy sizable proportions of their requirements for prompt shipment.

Another limitation on getting the preferred volume and distribution of data was that at many mills varying proportions of their purchases involved split grades or other special descriptions which did not correspond with the qualities included in the official price quotations. Some mills customarily purchase according to their special types instead of in terms of official government standards. Data on these transactions could not be used.

In some cases questions arose as to whether or not the lots of cotton purchased could be described as even-running. This was particularly the case when the cotton was purchased on actual samples. The widespread, and apparently increasing, use of approval samples may also have tended to encourage some deviations from strictly even-running lots.

One possible explanation of discrepancies between price quotation and actual price is the difference in date of quotation and date of transaction in some cases. Quotations are issued as of Thursday of each week. Changes in the relation of futures prices to spot prices may occur at any time. Accordingly, transactions made at the first of the week may be made on a different basis from the price quotations made near the end of the week. No attempt was made to determine the extent to which divergences were affected by a change in the basis between reporting dates.

Some variation in the data obtained in the study may have resulted from the influence of buying positions and practices of individual mills. The differences in prices paid on the same date by different mills for cotton of the same grade and staple, and from the same area of growth was very noticeable. In many cases those differences were so large as to indicate other considerations. Perhaps differences in character or in grade and staple determinations were involved in cases of this type. For these and other reasons it was found desirable to compute the average divergence for each mill by qualities and periods and then to combine the data for the mills without weighting by quantity for each mill. Giving each mill the same weight tended to minimize distortions caused by differences in the volume of data obtained from individual mills.

Data were not obtained in sufficient volume and were not distributed among the various qualities and weekly periods so as to permit satisfactory week by week comparisons. Consequently it was necessary to group the divergences for periods greater than one quotation reporting period. The grouping found most

desirable was that embracing the period of time during which a particular futures month was used as the basis for quotations. For example, all divergences for specific qualities for the period August 1, 1953 (date on which the study began) to about the middle of September were included under "October" as October futures was the basis month for quotations during that period. Similarly the period from about the middle of September to about the middle of November was included under "December" and so on for the other active futures months for a total of seven such periods. A brief analysis of the divergences for each growth area is presented in tables 2 to 5.

COMPARISON OF QUOTATIONS WITH PRICES PAID

Southeastern Growths

Quotations for Southeastern cotton sold in even-running lots were fairly consistently higher than the prices paid by mills for like qualities of cotton, according to data from selected mills. The overall divergence of the quotations from actual prices for the entire period, October 1953 to December 1954, for all qualities combined was +27 points (table 2).

Quotations for each period--a period being the time during which quotations were based on a specified futures month--were higher than prices paid for the same qualities by the mills included in the study. The average divergence by periods for all qualities ranged from +9 points for the period during which December 1954 futures was the basis month to +55 points for the March period. With the exception of the March period, the average divergences for the other periods were reasonably close to the average for the 7 periods. As previously mentioned, all of these average divergences by periods indicated a bias in the quotations toward the high side.

The average divergence by qualities for all periods in 6 of the 7 quality groups also showed a plus bias. For example the average divergence for Strict Low Middling 1 inch was +47 points, but Strict Low Middling 1-1/16 inches was only +16 points. According to the sample obtained of prices paid by mills, the quotation for Strict Low Middling 1 inch averaged 47 points higher than prices during the entire period covered by the study. On the other hand the quotations for Middling 1-1/16 inches were for the most part on the minus side, averaging 10 points below prices paid. Divergences for specific qualities may not in every case be supported by sufficient data to make such results very significant.

Memphis Territory Growths

The overall divergence of quotations for even-running lots for all qualities combined, Memphis Territory growths for the approximate period August 1953 to October 1954, was +36 points (table 3). While this was a somewhat greater average divergence than that reported in the preceding section for Southeastern growths, there was strong similarity in the divergence pattern.

Table 2.-Divergences 1/ of the Department of Agriculture's quotations for even-running lots of cotton from the prices paid for certain lots by selected mills in the Group B Mill Area of the Carolinas, by periods October 1953 to December 1954, Southeastern growths

								Period 2/			
Cotton quality, number of mills, and average divergence	Unit	1953	Oct.	1953	Dec.	1954	Mar.	1954	July	1954	Oct.
Middling, 1 inch											
Mills.....	Number:	4		4		4		3		3	
Average divergence.....	Points:	+22		+58		+42		+33		+15	
Middle, 1-1/32 inches											
Mills.....	Number:	9		8		6		6		7	
Average divergence.....	Points:	+10		+18		+17		+22		+11	
Middle, 1-1/16 inches											
Mills.....	Number:	8		6		1		1		3	
Average divergence.....	Points:	+13		-21		+8		+5		-33	
Strict Low Middling, 1 inch											
Mills.....	Number:	--		3		3		1		2	
Average divergence.....	Points:	--		+34		+74		+43		+16	
Strict Low Middling, 1-1/32 inches											
Mills.....	Number:	--		5		5		2		1	
Average divergence.....	Points:	--		+44		+63		+28		-103	
Strict Low Middling, 1-1/16 inches											
Mills.....	Number:	--		3		2		--		1	
Average divergence.....	Points:	--		+3		+71		--		-5	
Miscellaneous qualities 3/											
Mills.....	Number:	4		7		5		1		4	
Average divergence.....	Points:	+13		+54		+65		+15		+56	
Total Mills	Number:	25		36		28		15		15	
Average divergence.....	Points:	+13		+27		+55		+30		+33	

1/ Difference between the Department's quotation and the price paid by a mill for a lot of cotton, i. e., a plus divergence indicates that the quotation exceeded the price.

2/ A period was the time during which a specified futures month was used as the basis for quotation.

3/ Includes Strict Middling, 1 inch to 1-1/16 inches; Middling, 15/16 inch; Strict Low Middling, 15/16 inch; and Low Middling, 31/32 inch to 1-1/16 inches.

4/ Data obtained from 36 mills but many mills used more than one quality and are represented in more than one period.

The average divergence tabulated by monthly periods for all qualities combined showed a fairly high degree of uniformity. The divergences ranging from +25 points for quotations based on December 1953 futures to +47 points for those based on December 1954 futures. The period to period divergences were relatively small and in each of the 7 monthly periods the average divergence was plus, which indicates that the quotations had a bias tending toward the high side.

Average divergences for the entire period were plus for 9 of the 10 individual quality groups, the exception being Strict Middling 1-1/32 inches with an average divergence of -21 points. Other qualities had average divergences ranging from +19 points for Strict Middling 1-1/16 inches to +65 points for Strict Middling 1-1/8 inches.

In most cases the largest divergences occurred with respect to qualities not so common in even-running lots. In Memphis Territory growths, and also some other growths, qualities in heavy supply such as Middling and Strict Middling in staples 1-1/32 and 1-1/16 inches had the smallest divergences.

Texas-Oklahoma Growths

The divergences for Texas-Oklahoma growths, according to the limited amount of data available, corresponded rather closely with those reported for the other three areas of growth included in this study. The average divergence for Texas-Oklahoma growths was +40 points. On account of the scanty volume of data for this growth, the results reported may be less dependable than those reported for other growths (table 4). This is particularly true with respect to both the individual qualities and the 7 periods.

Department representatives requesting information from Group B Mills of the Carolinas concerning purchases of even-running lots, prompt shipment, found only a small number of such transactions for Texas-Oklahoma growths during the period of time in question. A total of 8 mills out of 60 visited had one or more transactions involving prompt shipment, even-running lots of Texas-Oklahoma growths. Most of these were given as Texas growths rather than Texas-Oklahoma growths. Most of the Texas-Oklahoma growths apparently went into export outlets or to mills other than those located in the Group B Mill Area.

An earlier study also showed that Texas-Oklahoma growths constituted only a minor proportion of the cotton handled in the large mill markets in the Group B Area, including Greenville, Spartanburg, Gastonia, and Charlotte. During the 1951-52 season the proportions of Texas-Oklahoma growths handled in these markets, including the purchases by consuming mills, ranged from about 2 percent to about 8 percent. 1/

1/ McLure, Joe H., and Fortenberry, A. J. An Appraisal of Certain Central Cotton Markets with Respect to Suitability for Designation for Price Quotations. U. S. Dept. Agr., Prod. and Mktg. Admin. 98 pp. May 1953.

Table 4.-Divergences 1/of the Department of Agriculture's quotations for even-running lots of cotton from the prices paid for certain lots by selected mills in the Group B Mill Area of the Carolinas, by periods October 1953 to October 1954, Texas and Oklahoma growths

		Period 2/			
Cotton quality, number of mills, and average divergence :	Unit : Mills.....	1953 : Oct.	1953 : Dec.	1954 : Mar.	1954 : May
Strict middling, 1-1/16 inches	: Number : Points :	2 : +42	-- : --	-- : --	-- : --
Middle, 7/8 inch	: Number : Points :	-- : --	-- : --	-- : --	-- : --
Middle, 15/16 inch	: Number : Points :	-- : --	-- : --	+27 : +24	+19 : +19
Middle, 1-1/16 inches	: Number : Points :	-- : --	-- : --	-- : --	-- : --
Miscellaneous qualities 3/	: Number : Points :	-- : -5	-- : +43	-- : +11	-- : +11

1/ Difference between quotation and price: a plus divergence means that the quotation exceeded the price.

2/ A period was the time during which a specified futures month was used as the basis for quotation.

^{3/} Includes Middling, 1 inch; Strict Low Middling, 7/8 inch; and Strict Low Middling, 31/32 inch.

4/ Davis
one period.

California Growths

For California cotton the average divergence from prices paid by selected mills in the Carolinas was +22 points, the smallest average divergence for the 4 growths included in this study (table 5). This average includes all qualities for which data were available and all 7 periods.

Divergences for monthly periods and for individual qualities also carried plus signs mostly, as in the case of the other growths reported. This too, indicates that in general the quotations were higher than prices paid for even-running lots by the selected mills. However, in two of the periods (October 1953 and October 1954) the quotations of all qualities combined averaged lower than prices paid by 25 points and 6 points respectively.

Averages for each of the quality groups reported had plus divergences except that for Strict Middling 1-1/16 inches which averaged exactly zero. This means that the quotations for this quality for the total period averaged exactly the same as prices paid by the reporting mills from an overall standpoint.

Of the 60 mills visited in connection with the study, data were obtained from 29 with respect to purchases of California growths. Almost half of the mills had purchased even-running lots of California cotton for prompt shipment during the period covered.

General Comparisons

A similar pattern of variation between quotations for even-running lots and prices paid by mills existed to a noticeable extent among each of the 4 areas of growth reported in this study (table 6). There were no extreme variations among the divergences by periods and areas of growth except in the case of July 1954 for Texas-Oklahoma. The extreme variation shown for this month and for that growth may possibly be explained, at least in part, by the small volume of data.

It will be observed that the overall average divergence for each of the 4 areas of growth fell within a reasonably close range of each other, +22 points for California growths, +27 points for Southeastern growths, +36 points for Memphis Territory growths, and +40 points for Texas-Oklahoma growths.

Average divergences for the different qualities by areas of growth were generally smaller in the case of Strict Middling and Middling than for Strict Low Middling (table 7). The larger divergences associated with Strict Low Middling may be accounted for, in part, by the fact that Strict Low Middling generally embraces a wider range of values than Strict Middling or Middling. Hence any tendency for the quotations to be biased on the high side would be expected to result in a greater absolute divergence for Strict Low Middling.

Table 5.--Divergences 1/ of the Department of Agriculture's quotations for even-running lots of cotton from the prices paid for certain lots by selected mills in the Group B Mill Area of the Carolinas, by periods October 1953 to December 1954, California growths

		Period 1/			Period 2/					
Cotton quality, number of mills, and average divergence	Unit	1953 Oct.	1953 Dec.	1954 Mar.	1954 May	1954 July	1954 Oct.	1954 Dec.	Total	
Strict Middling, 1-1/16 inches	Mills	--	--	2	3	4	3	2	14	
Average divergence	Points	--	--	+25	-4	-2	-12	+2	0	
Strict Middling, 1-3/32 inches	Mills	4	3	2	3	2	--	--	14	
Average divergence	Points	-12	+18	+62	+24	+50	--	--	+22	
Strict Middling, 1-1/8 inches	Mills	--	4	2	1	1	2	--	10	
Average divergence	Points	--	+35	+122	+130	+14	-38	--	+45	
Middling, 1-1/16 inches	Mills	--	2	5	2	1	1	2	13	
Average divergence	Points	--	+2	+31	+65	-15	+20	+5	+23	
Middling, 1-1/32 inches	Mills	1	--	2	2	2	2	1	10	
Average divergence	Points	+45	--	+57	+51	+52	+12	+42	+43	
Middling, 1-1/8 inches	Mills	--	1	--	1	1	--	--	3	
Average divergence	Points	--	+74	--	+65	+27	--	--	+55	
Strict Low Middling, 1-1/16 inches	Mills	1	6	5	3	3	1	1	20	
Average divergence	Points	-96	+11	+32	+21	-18	-25	+5	+5	
Miscellaneous qualities 3/	Mills	--	1	2	--	1	2	--	6	
Average divergence	Points	--	+54	+107	--	-26	+12	--	+44	
Total	Mills	6	17	20	15	15	11	6	4/ 90	
Average divergence	Points	-25	+23	+53	+37	+9	-6	+10	-22	

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1/ Difference between the Department's quotation and the price paid by a mill for a lot of cotton, i. e., a plus divergence indicates that the quotation exceeded the price.

2/ A period was the time during which a specified futures month was used as the basis for quotation.

3/ Includes Middling, 1-1/32 inches; and Strict Low Middling, 1-1/32 inches.

4/ Data obtained from 29 mills but many mills used more than one quality and were represented in more than one period.

Table 6.--Average divergence of the Department's quotations for even-running lots from prices paid by selected mills, by periods and by area of growth, October 1953 to December 1954

Period 1/	Area of growth				
	Southeastern	Memphis	Texas-Oklahoma	California	Average
	Points	Points	Points	Points	Points
October 1953.....:	+13	+39	+16	-25	+14
December 1953.....:	+27	+25	+51	+23	+26
March 1954.....:	+55	+37	+60	+53	+48
May 1954.....:	+30	+32	+18	+37	+32
July 1954.....:	+33	+36	+109	+9	+30
October 1954.....:	+17	+39	+13	-6	+22
December 1954....:	+9	+47	--	+10	+26
Average.....:	+27	+36	+40	+22	+30

1/ Period is the time during which a specified futures month is used as the basis for quotations.

Table 7.--Average divergence of the Department's quotations for even-running lots from prices paid by selected mills, by cotton qualities and area of growth, October 1953 through December 1954

Cotton quality 1/	Area of growth				
	South-eastern	Memphis	Texas-Oklahoma	Califonia	All growths
	Points	Points	Points	Points	Points
Strict Middling					
1 and 1-1/32 inches.....:	+15	-21	--	--	-2
1-1/16 and 1-3/32 inches.:	+31	+42	+42	+20	+34
Middling					
1 and 1-1/32 inches.....:	+33	+37	+39	+67	+35
1-1/16 and 1-3/32 inches.:	-10	+27	+12	+34	+21
Strict Low Middling					
1 and 1-1/32 inches.....:	+39	+81	+102	+33	+46
1-1/16 and 1-3/32 inches.:	+20	+73	--	+5	+17
All qualities.....:	+27	+36	+40	+22	+30

1/ Small quantities falling outside the qualities listed have been included.

For the reasons just cited, a comparison of the average divergences among areas of growth may be misleading if the qualities of cotton differ to a great extent. Medium qualities of cotton in which even-running lots are commonly sold would normally be expected to have smaller divergences than low grades of cotton, particularly if the low grades were not currently traded in good volume.

In the process of calculating average quotation-price divergences by qualities and periods, the individual mill divergences were determined. Mention was made previously of the noticeable difference, in some cases, in the prices paid by mills for the same quality of cotton. Despite the apparently high variability among the individual mills in prices paid, the average mill divergences followed a very consistent pattern with respect to the four areas of growth included in this study (table 8).

In each of these major growth areas approximately 25 percent, or slightly more, of the mills using each of these growths had a dispersal of divergences centered around +25 points. The most singular fact, however, is that the distribution curves for each growth coincided to a remarkable degree (fig. 1).

The explanation of this high degree of similarity in the distribution of average divergences by areas of growth for the individual consuming mills probably lies, in part, in the highly competitive relationships between the various growths. Most mills use, or are in position to use, cotton of more than one growth area and will increase or decrease their purchases of a specific growth, to some extent, in accordance with the comparative prices of the several growths. This tends to stabilize the relationships.

The similarity of divergence patterns with respect to Southeastern, Memphis Territory, and California areas of growth offers additional evidence that the sample was representative. As previously mentioned, the sample with respect to certain qualities, and particularly certain qualities within periods, is in some cases obviously lacking in volume.

SUGGESTIONS AND COMMENTS FROM MILL COTTON BUYERS AND MEMBERS OF COTTON TRADE

Department representatives, while obtaining data from mills on purchases of cotton, asked the mill officials the extent to which they referred to the quotations reports on even-running lots and particularly for suggestions, if any, toward improving the service. Previously, in connection with Central Market quotations, cotton dealers in central markets were asked similar questions.

A surprisingly large proportion of the mill representatives were not familiar with the Department's quotations for even-running lots; others were not receiving them. Out of 34 mills in North Carolina included in the survey, 10 were using the reports regularly, 6 referred to them occasionally, and 18 were not getting them. In South Carolina, however, about three-fourths of the 26 mills visited indicated that the reports were available in the mill office.

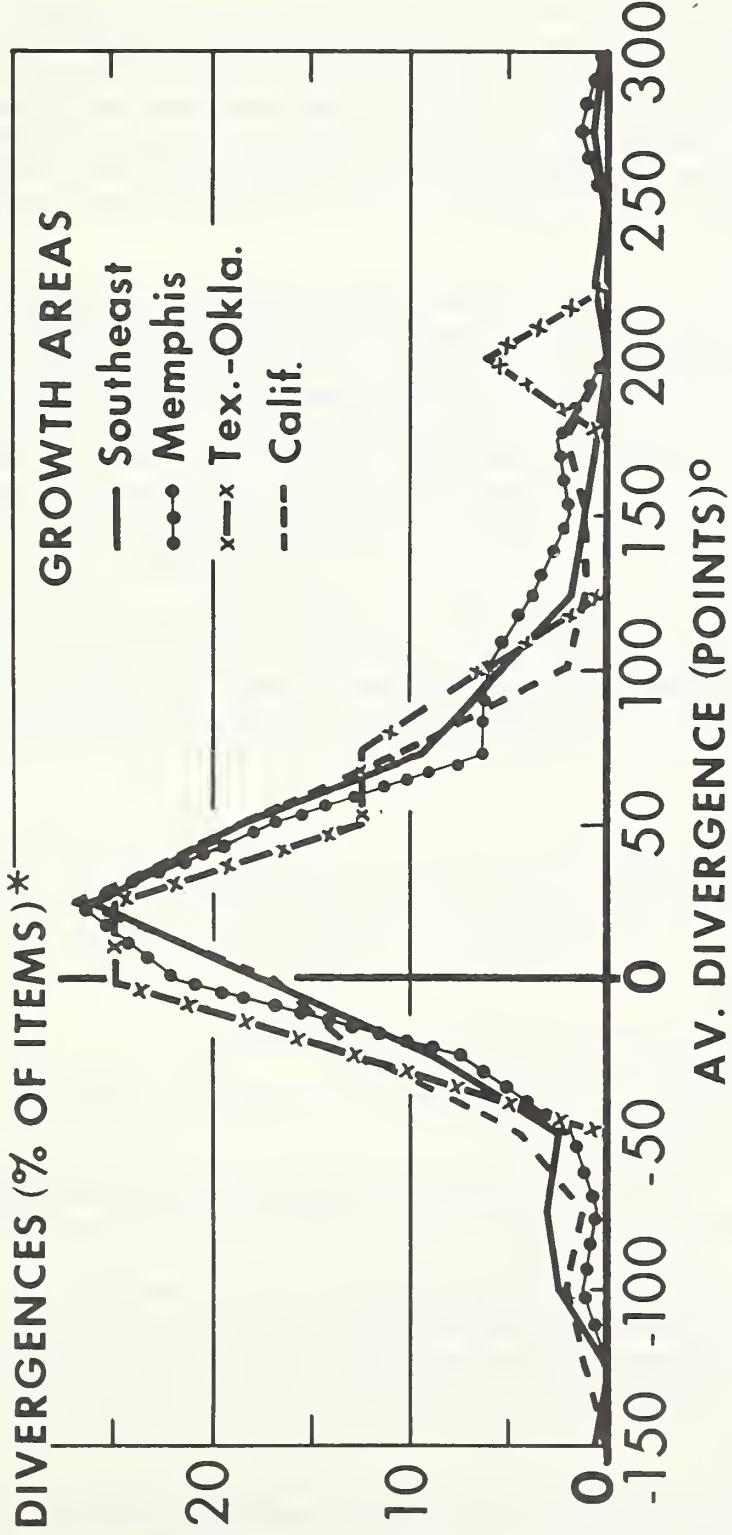
Table 8.--Distribution of average quotation-price divergences of purchases of even-running lots of cotton by individual mills in the Group B Mill Area, by areas of growth, during the periods October 1953 through December 1954

Average divergence (points)	Area of growth and percentage of items 1/				
	South- eastern	Memphis	Texas- Oklahoma	Calif- fornia	All growths
	Percent	Percent	Percent	Percent	Percent
-162.5 to -137.6...:	0.6	--	--	--	0.2
-137.5 to -112.6...:	--	--	--	1.1	0.2
-112.5 to -87.6....:	2.5	1.3	--	2.2	1.9
-87.5 to -62.6.....:	3.1	0.6	--	1.2	1.8
-62.5 to -37.6....:	2.5	1.9	--	4.5	2.6
-37.5 to -12.6....:	8.7	7.7	12.5	12.4	9.2
-12.5 to 12.4.....:	17.4	21.8	25.0	16.9	19.2
12.5 to 37.4.....:	26.1	26.9	25.0	27.0	26.5
37.5 to 62.4.....:	19.3	17.3	12.5	18.0	18.0
62.5 to 87.4.....:	9.3	6.4	12.5	10.1	8.5
87.5 to 112.4.....:	5.6	6.4	6.3	2.2	5.2
112.5 to 137.4.....:	1.9	3.8	--	1.1	2.4
137.5 to 162.4.....:	1.2	2.0	--	1.1	1.5
162.5 to 187.4.....:	0.6	2.6	--	2.2	1.7
187.5 to 212.4.....:	--	--	6.2	--	0.2
212.5 to 237.4....:	0.6	--	--	--	0.2
237.5 to 262.4....:	--	--	--	--	--
262.5 to 287.4....:	0.6	1.3	--	--	0.7
Total.....:	100.0	100.0	100.0	100.0	100.0
Number of items...:	161	156	16	89	422

1/ An item represents the average quotation-price divergence of the lots of a specific quality of cotton purchased by a mill during a futures-basis-month period.

DIVERGENCE OF USDA COTTON PRICE QUOTATIONS FROM PRICES PAID BY MILLS

Four Growth Areas, Oct. 1953 - Dec. 1954



* AN ITEM REPRESENTS THE AVERAGE QUOTATION-PRICE DIVERGENCE OF THE LOTS OF A SPECIFIC QUALITY OF COTTON PURCHASED BY A MILL DURING A FUTURES-BASIS-MONTH PERIOD.

○ USDA QUOTATION MINUS MILL PRICE; A POINT IS 1/100 CENT PER LB.

U.S. DEPARTMENT OF AGRICULTURE

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AGRICULTURAL MARKETING SERVICE

Figure 1

Practically all of the mill officials who were familiar with the quotation reports commended them. The most frequent comment was that the reports were considered satisfactory and reliable. At the cotton purchasing office of one of the largest mill chains the statement was made that the quotations were considered so reliable that the individual mill units were required to use the quotations in calculating raw cotton costs when determining the costs of operating. This, however, was one of the few mills that expressed any unusual interest in the quotations.

Scarcely any critical comments were received. One mill buyer stated that in his opinion the quotations were misleading because no indication is given as to the quantity of cotton represented by the quotations. Another person stated "We can't always buy at prices quoted." One specific suggestion made by a mill buyer was that quotations for some split grades be included in the reports. The statements noted above were the only criticisms or suggestions offered by the more than 60 mill officials interviewed. The lack of additional comments was, no doubt, partly attributable to the fact that many of those interviewed were not familiar with the report.

More than 200 cotton dealers in central markets were asked their opinions on the accuracy and usefulness of the quotations, and their comments were overwhelmingly commendatory. Here too, however, as with the mill officials, many cotton dealers, especially brokers, were not familiar with the report or at least did not see it regularly. The following are the critical comments received:

Greenwood

"Quotations tend to be too high."

Memphis

"Tend to be too high" (two firms).

"Valueless--not reliable."

"Report not reliable as it should be. Quotations usually are too low."

"Reasonably correct but quotations tend to be too high because firms quote asking prices instead of selling prices."

"Prices usually too low. Landing costs not completely included in prices."

"Reports generally too high. Wish we could sell cotton at the quotations published."

"Quotations are reasonably accurate but sometimes pitifully wrong."

Augusta

"Consider quotations only nominal and subject to wide error."

Atlanta

"Not entirely reliable. Differences in interpretation of quality account for some discrepancies."
"Fairly accurate but with a definite tendency to lag. Too slow in catching up with actual market conditions."

New Orleans

"Not accurate. We cannot come close to selling at quoted prices."
"Usually 50 points higher than normal (30-90 day) forward sales and this is too much premium for prompt shipment."
"Usually 50 points too high."
"Use more care in getting information from shippers."

Charleston

"Prices quoted are usually too high."

Greenville

"Suggest likelihood that enough firms do not participate in furnishing quotations to make them fully representative."

Houston

"Not as accurate as should be. Prompt delivery has too fluctuating a basis--may be at a slight discount in March, April, May, and June, to stop carrying charges, and at a 50 point premium in August and September."

Dallas

"Generally too high."

Fresno

"Erratic."
"Fairly accurate but generally too high."

Singularly, the comments relative to the quotations being too high came from the merchants, sellers of cotton in the merchant-mill transaction. No record was made in the survey that a mill representative said the quotations were too high. Another singular fact, however, is that mills were often unfamiliar with the quotations and thus unconcerned about them.

During the interviews with officials of cotton firms, 121 of them expressed approval of the present method of quoting even-running lots on a prompt-shipment basis--an overwhelming majority of those who expressed an opinion. A minority of 15, however, gave very cogent reasons for their advocacy of delivery within 30 days as the proper delivery term for use in the

quotations instead of the 14-day period applicable to prompt delivery. Several well-informed persons thought that forward delivery for certain specified delivery periods should be used in the quotations report in lieu of prompt delivery.

CONCLUSIONS AND RECOMMENDATIONS

The comparison of quotations with actual prices paid by mills for even-running lots of cotton and an analysis of the quotation-price divergences furnishes some support for upholding the soundness of the quotations as presently issued. The soundness of these quotations is also borne out by the fact that a substantial majority of the mill buyers and members of the cotton trade who expressed opinions made commendatory statements on the usefulness and soundness of the quotations.

Based on the sample of data furnished by mills as to actual prices paid, one fact stands out; namely, the quotations had a fairly consistent bias toward being too high. In general this bias applied to all areas of growth, to all qualities, and to each period, with only a few exceptions here and there.

Logically a plus bias would probably have been expected inasmuch as information for the development of the quotations is furnished largely by the sellers of even-running lots, the cotton merchants and shippers in the central markets. These sellers would ordinarily be expected to have an inclination, however fair they tried to be, to state their prices at a high enough level to cover liberally their costs in handling even-running lots. Hence there would be a tendency for the cotton merchant to give the Department representative asking prices rather than prices of actual transactions in some cases, particularly when no sales had been made of the type covered by the quotation report.

Another factor to be considered is that during most of the time covered in this study, the trend was toward rising prices. Inasmuch as some of the prices obtained at mills applied to days in advance of the once-a-week quotations, a lag in quotations with respect to prices obtained resulted. This may have accounted for a part of the plus bias in the quotations.

The criticism most generally made by the cotton merchants themselves, in those relatively few cases of adverse criticism, was that the quotations are generally too high. This was explained by merchants as the result of merchants furnishing asking prices instead of actual sale prices in the absence of current transactions. It appears from the results of this study that those criticisms have a basis of fact supporting them, and that some steps should be taken to investigate further the possibility of a plus bias in the data furnished the market news reporters by members of the cotton trade.

One obvious suggestion would be for the market news reporters to seek more information from mill cotton buyers and to rely proportionately less on quotations from shippers. This, however, may not be entirely feasible as there are so few mills that purchase even-running lots for prompt delivery with sufficient frequency as to be good correspondents for furnishing quotations. The remoteness of mills from the area offices where the quotation reports are issued

would also increase the difficulty of getting data from mills. Nevertheless the market news men can possibly find methods of getting increased representation from the mill purchasers of even-running lots.

Cotton merchants in the central markets will evidently continue to be the best source for regular week-to-week prices on even-running lots, confirmed or supplemented whenever possible by data from mills. Supplemental information might be obtained by comparing these prices with central market prices for mixed lots, adjusted by adding handling and freight costs to make them comparable with even-running lots, landed mills. The market news reporters could also make inquiries to confirm whether quotations they received from merchants are asking prices or are actual prices. The market news men undoubtedly are already following these practices, but in light of the findings in this report, they may find that they can discreetly intensify their efforts to get data more representative of actual prices paid.

The main purpose of the quotation report is to furnish reliable information that will aid in the marketing of cotton for the benefit of the entire industry. Considerable benefit would no doubt result from increased interest and participation of mill buyers, along with the development of still further interest on the part of merchants, and shippers, and the consequent increase in reliability of the quotations.

